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SUBJECT: GOVERNMENT PREEMPTS BILATERAL LABOR NEGOTIATIONS
WITH NEW MINIMUM WAGE

¶11. (SBU) Summary: After more than a month of slow progress, the government preempted the final round of negotiations between garment factories and workers by increasing the minimum wage from USD 45 to USD 50 per month. After the fourth round of negotiations on October 13 left the two sides still USD 10 apart, the Ambassador met with union leaders on October 19 to urge flexibility. The new minimum wage, which is less over three years than the last offer from the garment factories, will be applicable only in the garment and shoe industries and will be in effect for three years starting January 1, 2007. While factory owners were relieved and many unions angered by the decision, the two sides decided to continue their bilateral negotiations by focusing on illegal strikes, binding arbitration, and other issues. The negotiating process has forged new partnerships between more legitimate pro-government unions and their independent and pro-opposition counterparts, while isolating pro-government unions who show little real concern for the workers they represent. End summary.

More Slow Progress in Minimum Wage Negotiations

¶12. (U) During four hours of negotiations on October 13, unions reduced their proposed first year minimum wage slightly, from USD 63 per month to USD 62 per month. More significantly, they dropped their demands for 10% increases in two subsequent years, meaning that under their new proposal the minimum wage would have stayed at USD 62 for three years, rather than rising from USD 63 in the first year to USD 76 by the third year of the agreement. The Garment Manufacturers Association of Cambodia (GMAC) responded with a token raise in their proposed first year increase, from USD 47.75 to USD 48, and retained their earlier proposals for USD 50 in the second year and USD 52 in the third year. (Note: The current garment sector minimum wage is USD 45 per month. End Note.)

¶13. (SBU) International Labor Organization Chief Technical Advisor John Ritchotte had urged GMAC to break the month-long virtual impasse by placing their best offer on the table, giving the unions a realistic proposal they could take back to their workers. GMAC's customary 25 cent increase was a disappointment. However, GMAC Chairman Van Sou Ieng told Pol/Econ Chief that some factories felt that GMAC's current offer was already too generous, and that he had little room to maneuver.

Ambassador Urges Flexibility

¶ 4. (SBU) During an October 19 meeting with union leaders participating in the bilateral negotiations, the Ambassador said he was disappointed in both unions and GMAC for failing to make more progress in their negotiations. He described the unions' demand to raise the minimum wage by 38% as unrealistic, noting that prices for Cambodian garments have fallen by 20% since January 2005, and Cambodia faces stiff competition from low-cost garment factories in Vietnam and China. Union leaders were receptive to the Ambassador's message, but said that it was very difficult for them to determine what a fair wage would be for both workers and factories, and asked for embassy advice. Moreover, the opening of new factories made them dubious about GMAC's claims that profits were down sharply. The labor leaders also called for increased government anti-corruption efforts, saying that the money lost to unofficial fees should instead be used to increase salaries. The Ambassador agreed that more progress should be made on battling corruption.

¶ 5. (SBU) In continuing discussions with Poleconoff and LES Labor Assistant, the labor leaders said they feared that a recently announced meeting of the Labor Advisory Committee (LAC) would be an attempt to impose a minimum wage before the unions and GMAC could reach an agreement. (Note: Several weeks ago, the final round of negotiations had been set at October 20, with unions saying they would not strike or take other action until October 30 or later. The Ministry of Labor sent out notices on October 18 that it would hold a LAC meeting on October 19. End Note.) Some union leaders with seats on the LAC proposed boycotting the meeting, but emboffs convinced them to attend and urged them to voice their concerns. The unions also decided to draft a joint letter from the negotiating unions asking the government not to intervene while negotiations were ongoing.

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Labor Advisory Committee Sets Minimum Wage at USD 50

¶ 6. (SBU) At a hastily convened LAC meeting on October 19, Minister of Labor Vong Soth listened to now-familiar arguments from unions, GMAC, and government commerce officials about the minimum wage: rising cost of living in Cambodia, comparisons to minimum wages in neighboring countries, and fear of competition from China and Vietnam. After an hour of discussion, Vong Soth proposed a one-time increase to USD 50 per month, to be in effect from January 1, 2007 through the end of 2009. The minister did not entertain a union attempt to counteroffer USD 55 per month. The vote on the proposal passed 17 to 20, with all of the eight government representatives and six private sector representatives voting in favor. Three labor representatives from pro-government unions also voted in favor, while three labor leaders from independent and pro-opposition unions voted against the proposal. (Comment: While it is a tripartite body, the LAC is dominated by pro-business and pro-government representatives from the private sector, the government, and some unions. End Comment.)

¶ 7. (SBU) GMAC had been in discussion with the Ministry of Labor for several days about the feasibility of various minimum wage levels, according to Ken Loo, Secretary General of GMAC. Loo told poleconoff that GMAC had indicated that it could go no higher than USD 52 spread out over three years, but subsequently agreed to a Ministry proposal of a one-time increase to USD 50.

¶ 8. (SBU) Pro-opposition unions were extremely frustrated both by the government's intervention and by the new wage level. However, they offered little explanation for their failure to voice their concerns about LAC intervention preempting the on-going bilateral negotiations.

19. (U) GMAC leaders and about 12 of the 17 unions went ahead with the planned October 20 negotiations despite the newly set minimum wage. The group discussed illegal strikes, binding arbitration, maternity leave benefits, and possible increases in seniority and attendance bonuses. Ritchotte noted that none of the unions mentioned the possibility of a general strike. Notably absent from the negotiating group were several pro-government unions who had urged the group to abandon negotiations and invite the government to intervene. Discussions are set to resume in November, when GMAC Chairman Van Sou Ieng returns from an extended trip overseas.

10. (SBU) Comment: Government intervention in the bilateral labor negotiations is disappointing, but hardly surprising. Emboffs, ILO, and the American Center for International Labor Solidarity had been warning unions for weeks that the government was likely to intervene if negotiations failed to progress, and that such intervention would favor the garment industry. The GMAC Chairman told Pol/Econ Chief on October 17 that he anticipated government intervention as the gap between unions and GMAC was unlikely to be resolved through negotiation. Nonetheless, the unions have achieved an 11% increase in the minimum wage, a real achievement at any time, but all the more significant given falling garment factory profit margins. Factories will have to absorb a fairly steep increase come January, but have gained what factory owners and buyers want most: predictability.

11. (SBU) Comment Continued: The surprise side benefit to this process has been the creation of unprecedented levels of trust among independent unions, pro-opposition unions, and the more legitimate pro-government unions. Two pro-government union leaders--Chuon Mom Thol, President of Cambodian Union Federation and leader of the pro-government federation, and Som Aun, President of the Cambodian Labor Union Federation--have isolated themselves through their thinly veiled attempts to undermine the negotiation process and throw the minimum wage decision to the government. As a result, other pro-government unions have started to set aside their historical animosity with their pro-opposition counterparts and are cooperating in their attempt to secure a favorable agreement with GMAC. Given the bitter and sometimes violent relationships among rival unions, improved relations could mean a safer environment for workers and

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fewer strikes and other delays for factories. End Comment.
MUSSOMELI